

Central Intelligence Agency



Washington, D. C. 20505

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4 September 1985

## The Swedish Election: Conservative Winds of Change?

Summary

A conservative trend appears to be developing in Swedish politics, and Prime Minister Palme's Social Democrats (SDP), in power almost continuously since 1933, could fall victim to it. This trend is particularly noticeable among first-time voters, who seem attracted to the Conservative Party's call for at least minor changes in Sweden's welfare state policies and programs -- the first time in a generation that the opposition has seriously proposed altering Sweden's statist orientation. The party's stand on "freedom" issues -- an individual's right to choose schools, doctors, daycare centers, and, by implication, the right to a private sector element in these fields now dominated by state institutions -- has also appealed to the business community, which has sometimes tended to support the SDP in recent decades. [redacted]

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This memorandum was prepared by [redacted] Office of European Analysis,  
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But Palme is waging a strong campaign and may be able to retain power on the strength of his claim that he needs more time to straighten out the poor situation he inherited in 1982 from the only non-socialist governments to hold office in the last 52 years. Even if the Conservatives and the two smaller non-socialist parties do manage to wrest power from Palme, we do not anticipate radical policy changes. Many Swedes appear prepared to endorse some tinkering with the system, but they are comfortable with the benefits they derive from the social welfare state and are basically reluctant to surrender what they now have. [REDACTED]

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Although the foreign policy of a non-socialist government would not differ in major substantive ways from Palme's, the tone would be more congenial from the US point of view. We have no doubt that Sweden would continue to push such issues as disarmament and detente, but a Conservative-led government would probably be somewhat more skeptical of Soviet motives and more supportive of Sweden's defense establishment. It would also be less prone to criticize US policies in such areas as Central America and would have less enthusiasm than Palme for specific causes, such as a Nordic nuclear weapons-free zone. [REDACTED]

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### The Setting

Recent polls indicate that the ruling Social Democratic Party (SDP) may have a difficult time trying to win a second three-year term of office in the national election on 15 September. The contest could be the most important election in half a century if what we perceive to be the beginning of a long-term conservative trend in Swedish politics leads to the ouster of the SDP. On the one hand, the youth and "business vote" -- the sizable group of voters whose preferences tend to follow those of the influential business leaders -- seems to be moving toward the Conservatives and could give them the victory. On the other hand, the Social Democrats' message to the electorate -- that the party needs another term to straighten out the poor situation it inherited from the non-socialist governments in office during 1976-82 -- may still persuade enough undecided and non-voters to give the victory to the Social Democrats. [REDACTED]

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Although the non-socialist opposition -- the Conservative, Liberal, and Center parties, plus the Christian Democrats -- have made significant strides in voter support within the past year, polls suggest they are still having some trouble convincing voters that they can form an effective coalition government while competing against each other for electoral support. But there is polling evidence that first-time voters in particular do not consider the SDP Sweden's natural government, as their parents do. These voters seem to be attracted to the Conservatives' pragmatic stand on the need for small changes in welfare state policies and to the middle parties' concern for the individual in such areas as health and welfare, the environment, and taxes. [REDACTED]

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The non-socialists have seen a sizable early lead over the SDP and the Left Communists evaporate into what now looks like a dead heat. The unusually large number of undecided voters that remains -- between 8 and 12 percent -- makes predicting even riskier than usual, but on balance, we believe that the non-socialists stand a better chance of victory than in the last election, largely because of their high standing among youth and business voters. [REDACTED]

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### The Parties

#### The Conservatives

Of the three non-socialist parties, the Conservatives under Ulf Adelsohn have fared by far the best since the last two elections: in 1979, they took 20.3 percent of the vote and, in 1982, 23.6 percent. They reached the 30-percent threshold in the polls last year, even before the long campaign had begun. The party has established itself most successfully in the larger cities, but it has also made impressive inroads in the smaller towns and rural districts. [REDACTED]

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Among younger voters, the Conservatives are doing particularly well. Polls suggest they now have the support of 43 percent of the 18- to 21-year old voter group, compared to 36 percent support for the SDP. Conservative hopes for a victory rest on this support carrying over to the ballot box. [REDACTED]

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The Conservatives have benefited most from an underlying rightward shift in national attitudes over the last few years. Polls suggest that Swedes, feeling the burden of heavy taxes (at 51 percent of GNP, the highest of all OECD countries), a large public sector, rising unemployment, and persistent high levels of inflation, have become anxious for fiscal restraint, an issue

which the Conservatives -- more than the socialists -- have consistently pushed since the late 1970s. Although the Palme government's present economic policy, highlighted in the FY 1986 budget, continues to be prudent, the Conservatives would take further steps to cut taxes, reduce the level of public spending, reinforce the market economy, and encourage more private investment. [redacted]

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This year, unlike 1982, the non-socialists probably will agree on Adelson as prime minister should they win. The Liberals' Bengt Westerberg has had too little time as party chairman to make enough of a political mark for himself or his party, and Center Party Chairman Thorbjorn Falldin's poor health makes it doubtful that he is up to the prime minister's job again. [redacted]

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### The Liberals

Such traditional Liberal goals as religious freedom, universal suffrage, social security, and the broadening of parliamentary democracy have become accepted features of Swedish society, leaving the Liberal Party with the alternatives of either developing a new role for itself or gradually being displaced by the larger parties. The election of Bengt Westerberg to replace Ola Ullsten as party chairman in 1983 unified the Liberals and, by stemming the continuing erosion of their traditional constituency, appeared to end the uncertainty about their future. Observers are optimistic that the party's relative stability since Westerberg took over will continue, but the party is having a hard time finding the profile or program that can attract the loyalty of large numbers of rank-and-file voters. Currently the party has about 6.5 percent of voter support -- just above the 1982 election figures, but down a few percentage points from 1984 poll results. [redacted]

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The 1985 election, in our view, may not be particularly important for the Liberals. If the SDP is reelected, the Liberals will have three more years to build a profile and a grass roots organization. If the non-socialists win, the Liberals will not have enough votes to make Westerberg prime minister (the party leadership hopes to attract between 10 and 12 percent of the vote; our estimate is 10 percent at best). With any less than 10 percent of the vote, the party probably will have little room to demonstrate its claim on a place in a minority government, especially if the Center Party does not join such a coalition. In this event, to survive beyond the next election in 1988, the Liberals would have to overcome the

perception that they have become mere fence-straddlers, ill-equipped to lead a government. [ ]

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### The Center Party and the KDS Factor

The Center Party gained strength in the late 1960s by championing popular dissatisfaction with big government and stressing the negative side effects of rapid economic growth, but its deeply-rooted organizational network remains dominated by farming interests. It has advocated decentralization of governmental authority, tax changes to aid families and the self-employed, and phasing out nuclear power in favor of an energy program "sensitive" to the concerns of Swedish environmentalists. [ ]

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The party is now in a slump. Center supporters today number less than a third of those of the Conservative Party, a reversal of the situation that obtained in the early 1970s. The party has obtained a preference rating in recent polls of 9 percent, compared to 15.5 percent of the vote in the 1982 election and 25 percent in 1976. In these circumstances, the Center Party chose late in 1984 to form an electoral alliance with the small Christian Democratic Alliance (KDS). By appearing jointly on the ballot with the KDS, the Center Party will have the benefit of votes cast for the KDS, which by itself has never achieved enough support for representation in the Riksdag (parliament). [ ]

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This "technical cooperation" caught both socialist and non-socialist parties by surprise and elicited quick condemnation from Palme, who accused the two parties of manipulating the 4-percent parliamentary threshold provision of the constitution. The number of seats the Center Party stands to gain from such cooperation is uncertain; estimates range from one to seven, with the losses taken by the Liberals and/or the SDP. Historically, the Center Party has lost votes following such periods of cooperation. Cooperation with KDS, on the other hand, could strengthen the bargaining power of Center chairman Falldin for negotiations with either the Liberals or the Conservatives. [ ]

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### The Campaign

In campaign appearances, Palme has hammered away at the Conservative Party's supposed intention to destroy the Swedish Model by changing employment policies and the role of trade unions, weakening the public sector, and reducing social welfare transfers. The Liberals' Westerberg, among others, has responded to these accusations by promising to protect existing welfare

benefits as well as the free market and claiming that Palme wants to make the system even more socialistic. [redacted]

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But today, for the first time in a generation, the opposition is proposing to halt, and perhaps even to roll back a fraction, Sweden's statist orientation. The non-socialists' platforms focus on the long-term goals of infusing more private sector influence into the economy, modifying some tax and wage policies, and addressing budget and trade deficits to try to encourage steady economic growth in an economy that has relied for many years on high taxes to support a bulging public sector and on devaluations to improve the international balance sheet.

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The SDP, for its part, appears to be concerned with demonstrating that it is a competent economic manager in government, relying on its record over the past three years to tell the story. Nevertheless, the SDP has proposed some limited economic liberalization measures, although its view of "change" is a shorter-term one that rests on curbing inflation and restoring equilibrium in the current account and in the budget without making any real cuts in the welfare system. The government appears torn between securing its key economic objective of bringing rising prices under control and maintaining good relations with the trade unions, where its power base lies. [redacted]

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Some issues that have come to the fore in this campaign, and that probably will be around for several years, include the privatization debate, accountability of the unions for the impact of excessive wage increases on unemployment, and responsible management of the budget and the international accounts. In the Swedish context, privatization refers both to the selling-off of state corporations -- if it can be done profitably -- and to plans to permit service companies to compete with the public sector for government contracts. The Conservatives also want to end the public sector monopoly in the fields of education and health care. The more efficient use of resources that an element of competition might bring to the red-tape-bound public sector is an important argument within this issue, but less so than the increase in choice of service for the public. [redacted]

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The Conservatives and Liberals also believe that some of the privileges of the powerful trade union movement must be rescinded, or at least held in check. Their approaches include forcing the unions to accept responsibility for the impact that several years of unreasonably high wage increases has had on unemployment. The Conservatives are thus proposing, among other

things, to ban clauses in collective wage agreements linking wage settlements in one union or union group with those in another.

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Other major issues include the budget and current account deficits and the country's soaring foreign debt. While the non-socialists do not deny the government's accomplishments in the first two areas, they insist that economic growth cannot continue unless the inflation rate, the dollar exchange rate, and import prices show more favorable trends over the next year. They adhere to the view of several domestic economic forecasting institutions that longer-term factors such as deterioration in Swedish competitiveness brought on by domestic wage and cost developments, and strong domestic demand for imports, probably will drag the current account into the red for the next year or so. Overall, they believe the key to steady economic growth and improved competitiveness lies in lower public expenditures and more free-market interplay in the system.

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#### Post-Election Scenarios

The prospect for post-election cooperation among the non-socialist parties is good, in marked contrast to the bickering that took place prior to the formation of a coalition government in 1976. The Conservatives would prefer a strong majority government, and they will be willing to offer quite a few portfolios and concessions to induce the other parties to come along. But should a non-socialist majority be unable to agree on a coalition, a one-party minority Conservative government is a possibility. A less likely possibility would be a non-socialist coalition that fell short of a majority. Such a government would have to seek majorities in parliament on an issue-by-issue basis, and the non-socialists doubtless recall the same situation in the late 1970s led to unstable Center-led and later Liberal-led coalitions and, ultimately, an SDP election victory in 1982.

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#### Economic Priorities of a Non-Socialist Government

The most important item of consensus among the three major non-socialist parties is their agreement on the need for a "common sense" reform of the Swedish system, entailing no major loss of welfare benefits to the public. As late as 1982, the political wisdom appeared to be that the Conservatives' ties to upper-class business interests made a Conservative-led government "unsuitable" for egalitarian Sweden.

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We believe a Conservative-dominated government would push strongly for both outright tax reductions and lower marginal tax rates. In part this would be intended to fulfill an ideological commitment to expanding personal economic freedom, but it would also have the effect of offsetting the economic and political disadvantages -- reductions in welfare payments caused by cuts in government programs and transfers -- of its other major policy goal to reduce public sector spending. The non-socialists would probably also want to reduce corporate taxes in an effort to stop the flight of Swedish business to countries with lower tax rates. Other points of agreement among the parties that we would expect to see on the agenda of a Conservative-led government include legalizing competition with government monopolies and prohibiting "collective membership" -- the enforced enrolling of the entire membership of a union in the SDP if a majority of members approve. [redacted]

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#### If the Social Democrats Win

We believe that if the SDP wins, it will nonetheless fall short of a legislative majority. The most likely scenario for an SDP return to power, in our view, would be as a minority government supported on single issues by the smaller parties on the right and the left. The SDP has been forced periodically to seek Communist Party (VPK) support or abstention in parliamentary votes during the past three years. The VPK, in turn, has obtained enough SDP support on measures of interest to it that we believe it would remain interested in working with the SDP. Because it appears likely the Communists will again squeak into parliament with about 5 percent of the vote, a political marriage of convenience could once again be established. [redacted]

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A less likely scenario would involve a more formal partnership between the SDP and either or both of the middle parties. The Social Democrats would need to adopt this strategy only if the VPK does not, in fact, meet the 4-percent threshold for parliamentary representation. Moreover, the Liberal and Center Parties seem less receptive than they were in 1982 to the notion of such cooperation with Palme, and the only other small party from which the SDP could seek support for at least some of its programs -- the Environmental Party -- is not likely to win parliamentary representation. [redacted]

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#### Palme's Second Term Economic Priorities

We believe Palme would maintain the relatively tight fiscal and monetary policies of the government's FY 1986 budget. The customary Social Democratic spending inclinations would be



further restrained by a promised small reduction in the tax base, a concern about seriously overshooting the 1985 inflation target of 3 percent, and by Sweden's need to borrow abroad again to finance the current account deficit. Palme's firm but uncharacteristic action in intervening to end a public employees' strike in May suggests that he appreciates the need to encourage union responsibility on wage demands. [redacted]

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The government's goal for 1990 is to halve unemployment from the current level of almost 4 percent (excluding those on job-training programs.) Nonetheless, at the cost of more unemployment, the SDP thus far has been willing to see unprofitable businesses close down and to make cutbacks in subsidies to ailing industries. Perhaps the greatest risk for the SDP, which has been successful in improving Sweden's international competitiveness, strengthening industrial profits, and raising GNP, is that the economic recovery will serve to divert attention from underlying problems and lessen the government's resolve to restructure the basic industries, such as steel and the shipyards. The government also needs to face up to the problem of finding the resources to support the large public sector in the future. This effort has been complicated by Palme's attempt to ease the direct burden on corporate and individual taxpayers by seeking to raise more revenue through indirect taxes. [redacted]

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Nowhere in their platform do the Social Democrats suggest any real changes in welfare state policies. On the contrary, the SDP takes a much more restrictive view of several of the non-socialists' "freedom issues." On privatization, the SDP is against allowing health, education, and other social welfare services to be undertaken by profit-seeking commercial organizations. As for consumer choice, its answer to the non-socialist challenge is to decentralize public sector decision-making as far as possible in order to allow competition between public sector institutions, such as daycare centers. [redacted]

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#### Foreign Policy and Security Issues

The basic elements of Swedish foreign policy have remained constant, regardless of which party or coalition has held power, and, in contrast to the growing differences between left and right on domestic issues, the party differences that exist on foreign policy are not substantive. But a non-socialist government's approach to foreign policy issues would differ from the SDP's in important tonal ways. [redacted]

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Regardless of who wins the election, we have no doubt Sweden will continue to push such issues as disarmament and detente and to support the UN and other multinational organizations. Sweden will also continue to provide aid to Third World countries and to espouse humanitarian causes. The Swedes believe not only that foreign assistance constitutes the logical continuation of their own program of domestic social reform, but also that it is in their own self-interest, by leading to other advantages such as trade. [redacted]

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For the past year, Swedish politicians from all parties have discussed establishing a multiparty consensus on foreign and security policy. Recently, Conservative Party security issues spokesman Carl Bildt reiterated a call for a tighter, more consistent foreign policy and for a stronger defense policy, particularly toward the USSR. The Conservatives feel Palme has been too yielding to the Soviets and not always willing to stand up for Swedish sovereignty -- at least until last fall when he began projecting a tougher line toward the Soviet Union. At the same time, he successfully fought off attempts by the peace wing of the SDP to limit defense spending. While a non-socialist government likely would adopt a stronger position in dealing with the Soviet Union than the Social Democrats have taken, it would still favor contacts and political dialogue. [redacted]

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Palme has been eager to make foreign policy an election issue, his interest prompted in part by an opinion poll in 1984 that showed 59 percent of Swedish voters believing the SDP to be the party "best able to present Sweden's case internationally on peace and disarmament questions." The Conservatives were named by only 5 percent.\* [redacted]

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While the foreign policy of a Social Democratic government would continue to be activist, owing in part to Palme's greater international stature and visibility, a non-socialist government would also not hesitate to speak out on disarmament, East-West relations, and the aspirations of Third World countries. Again, the differences would be tonal ones. As a neutral, Sweden considers its first line of defense to be the principles of international law. Any involvement by a superpower in the affairs of a small state, whatever the justification offered, will draw a sharp rejoinder from Sweden. [redacted]

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\*Palme's reputation on this score has been tarnished by the missteps of his foreign minister, Lennart Bodestrom, who was censured in February for statements he has made over the past year casting doubt on the government's own reports about foreign submarine incursions. The incident seems not to have harmed the SDP's standing in the polls, but Bodestrom remains something of an albatross for Palme and could be replaced in a new Social Democratic government. [redacted]

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Although tested repeatedly by the suspected Soviet submarine incursions of the last several years, Sweden's traditional policy of nonalignment has not been an election issue. Sweden's defensive posture is unquestionably focused toward the East; the major threat is seen emanating from the Warsaw Pact countries and, in the case of the submarine incursions, from the Soviet Union. Sweden's geostrategic location and its defensive capabilities -- particularly its air defenses -- make a valuable contribution to deterrence of the USSR on Europe's northern flank. Although no one is suggesting that Sweden abandon its armed neutrality, talk of closer ties with NATO -- in the Swedish press and in academic discussions -- is no longer dismissed out of hand. [redacted]

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Because of the national consensus on armed neutrality, neither a Social Democratic nor a non-socialist government would alter the commitment to a strong defense. Many in the defense establishment, however, probably hope for the return to power of a non-socialist government because they believe -- correctly in our view -- that such a government would be more inclined to support their needs. We also believe the Navy may be given more operational flexibility to deal with submarine penetrations if a non-socialist government is in office. [redacted]

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#### Implications for the United States

Swedish criticism of US actions would probably be less common under a non-socialist government. The risk of strains developing in US-Swedish relations, such as occurred over the situation in Central America, would therefore be reduced. A non-socialist government, we believe, would also be less inclined to try to enlist other nations in pressing the superpowers to limit armaments and take steps to reduce the risk of conflict. Based on the government's recent foreign policy report to parliament, Palme would continue to support the concept of a nuclear weapons-free zone in the Nordic area and seek discussions on the subject with Sweden's Scandinavian neighbors. The non-socialists have expressed their serious doubts about this means of protecting Swedish territorial sovereignty and their borders' inviolability. They would support the concept only if the Soviets agree to include their territory and guarantee compliance with all elements of an agreement. [redacted]

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Both a Social Democratic and non-socialist government would attach great importance to preserving the good working relationship with the United States that has been maintained for some time. [redacted]

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[redacted] This is not likely to change -- and may be strengthened -- under a non-socialist government. [redacted]

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*Public opinion is now tilted in favor of the opposition. The Center Party, with the help of KDS, has taken a genuine step forward, the Conservatives are advancing strongly, and support for the Liberals is increasing. The government will have a difficult year if the economic downturn comes "too early."*

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